

**REPORT OF THE AUDIT OF THE
CARTER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CARTER COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Carter County Fiscal Court for fiscal year ended June 30, 2004. We have issued unqualified opinions, based on our audit on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Carter County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Carter County's major federal program, Community Development Block Grant, for the year ended June 30, 2004.

Financial Condition:

The fiscal court had net assets of \$3,167,977 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,675,414 in its governmental activities as of June 30, 2004, with total net assets of \$3,143,018. In its business-type activities, total net cash and cash equivalents were \$17,083 with total net assets of \$24,959. The fiscal court had total debt principal as of June 30, 2004 of \$13,385,000 with \$350,000 due within the next year.

Report Comments:

- Lacks Adequate Segregation Of Duties
- The Fiscal Court Should Adopt A Written Investment Policy

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Carter County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Carter County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Members of the Carter County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carter County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 22, 2005, on our consideration of Carter County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discuss the following report comments:

- Lacks Adequate Segregation Of Duties
- The Fiscal Court Should Adopt A Written Investment Policy

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 22, 2005

CARTER COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Charles Wallace	County Judge/Executive
Carlos Wells	Magistrate
Jeff Kiser	Magistrate
D. L. McDavid	Magistrate
Judy Roark	Magistrate
Debbie Carper	Magistrate

Other Elected Officials:

Michael Fox	County Attorney
Randy Binion	Jailer
Hugh McDavid	County Clerk
Larry Thompson	Circuit Court Clerk
Kevin McDavid	Sheriff
Charles Kiser	Property Valuation Administrator
George Sparks	Coroner

Appointed Personnel:

Cindy Lowe	County Treasurer
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Carter County

Carter County Courthouse
300 West Main Street, Room 227
Grayson, Kentucky 41143



Phone 606-474-5366
Fax 606-474-6991

CHARLES WALLACE
Carter County Judge Executive

Management's Discussion and Analysis **June 30, 2004**

The financial management of Carter County, Kentucky offers readers of Carter County's financial statements this narrative overview and analysis of the financial activities of Carter County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Carter County has net assets of \$3,167,977, including current and capital assets, as of June 30, 2004.
- Carter County's total bonded indebtedness at the close of fiscal year June 30, 2004 was \$13,385,000, of which \$13,035,000 is noncurrent debt (due after 1 year) and \$350,000 is current debt (to be paid within 1 year). The Justice Center Corporation entered into a new KADD lease during the fiscal year in the amount of \$380,000 to complete the construction of the Justice Center, and debt reductions were \$529,656 for the fiscal year.
- Carter County upgraded its equipment for the road department during the fiscal year, including the purchase of a new backhoe.
- Carter County's new Justice Center was under construction during the fiscal year, with the opening expected in August of this year. The construction was financed with the sale of County bonds, and the debt repayment will be made by the state Administrative Office of the Courts.
- The county received various grants during the fiscal year. Coal Severance grants in the amount \$135,516 were received for various projects, including equipment for all county fire departments, property acquisition for a permanent fair location, supplies for Someday Outdoor Drama and the Grahn Community Center, acquisition of property for a recreational park, and a historic marker for Mt. Savage Furnace. The county also received Homeland Security grants totaling \$89,964 for the two city police departments, the Sheriff's department, fire departments, Emergency Management, and Carter County Search and Rescue. An \$11,133 Ambulance Board grant was also received for equipment and training.
- During the fiscal year, the Carter County Ambulance Service opened a brand new facility across from the Carter County Detention Center.
- The Carter County Fiscal Court dedicated land for the creation of a new recreational park. The land donation, along with funds from various grants, should enable construction on the park to begin later this year.
- The County received \$793,502 in CDBG monies during the fiscal year, to continue work on the Rattlesnake Ridge Water Expansion project.

**Carter County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Carter County's basic financial statements. Carter County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Carter County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Carter County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Carter County is improving or deteriorating.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Carter County's governmental activities include general governmental, protection to persons and property, roads, general health and sanitation, and social services. The county has one business-type activity – the operation of a jail canteen.

The government-wide financial statements include not only Carter County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Carter County has one such entity, the Justice Center Corporation. It is known as a blended component unit.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Carter County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Carter County can be divided into three broad categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Carter County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Carter County maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund, Enhanced-911 Fund, and Justice Center Corporation Fund, all of which are considered major funds by the county. The Governor's Surplus Spending Fund, Forestry Fund, Bond Defeasance Fund, and Jail Bond Debt Service Fund are considered non-major funds and are represented in combined form.

Carter County adopts an annual appropriated budget for its governmental funds, with the exception of the Justice Center Corporation Fund, which is not required to be budgeted. A budgetary comparison statement has been provided in this analysis for each of the major funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Fiduciary Funds. Fiduciary funds report assets held by the County in a trust or agency capacity on behalf of others. The fiduciary fund financial statements provide separate information for one agency fund – the Jail Inmate Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Financial Analysis of the County's Funds.

As noted earlier, Carter County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Carter County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**Carter County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

As of the end of the June 30, 2004 fiscal year, the combined ending fund balance of County government funds was \$2,495,769.

The County has 7 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund; 4) Local Government Economic Assistance Fund; 5) Community Development Block Grant Fund; 6) Enhanced-911 Fund; and 7) Justice Center Corporation Fund. There are 4 non-major funds. They are the Forestry Fund, Jail Bond Debt Service Fund, Governor's Surplus Spending Fund, and the Bond Defeasance Fund.

1. The General Fund is the chief operating fund of Carter County. At the end of June 30, 2004 fiscal year, the total fund balance of the General Fund was \$1,068,103. The county received \$631,400 in Insurance Premium Tax revenue, which accounts for approximately 31% of total general fund revenues. \$359,847 was received from real and personal property taxes, and accounts for approximately 18% of the county's general fund revenues. Various other taxes, service fees, and grants make up the remaining 51% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$79,375 in fund balance at June 30, 2004. The fund balance at the end of the previous year was \$53,373.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail fund had a fund balance at June 30, 2004 of \$158,716. That is an increase of \$64,472 over the previous fiscal year end.
4. The Local Government Economic Assistance Fund had a fund balance of \$128,703, an increase of \$76,398 over the previous fiscal year end.
5. The Community Development Block Grant Fund received \$793,502 in federal funds that were spent on the Rattlesnake Ridge Water Expansion Project.
6. The Enhanced-911 Fund accounts for the County's emergency operations and is supported primarily from telephone taxes. There was a fund balance of \$143,108 at the end of the June 30, 2004 fiscal year.
7. The Justice Center Corporation Fund is a blended component unit of the fiscal court. It was established to issue the debt to build the Carter County Justice Center.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column and the government-wide financial statements, but in more detail.

Carter County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net capital assets of \$7,876 as of June 30, 2004, and a cash balance of \$17,083.

General Fund Budgetary Highlights.

The County's original budget was amended during the fiscal year increasing the operating budget by \$154,763. Budget amendments were made to include grants and surplus revenues as opposed to projected collections.

Actual operating revenues were \$196,773 more than originally budgeted by the Fiscal Court, and actual operating expenses were \$286,774 less than originally budgeted.

**Carter County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Capital Assets and Debt Administration.

Capital Assets. Carter County's investment in capital assets for its government and business type activities as of June 30, 2004, amounts to \$14,040,125 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. The County has elected to report infrastructure assets placed in service on or after July 1, 2003, as permitted by GASB 34 provisions.

**Table 1
Carter County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities	Business-Type Activities	Total
Infrastructure Assets	\$ 634,687	\$ 0	\$ 634,687
Land	942,900	0	942,900
Const. In Progress	6,000,000	0	6,000,000
Bldgs. & Improvements	5,937,150	0	5,937,150
Equipment	421,525	7,876	429,401
Vehicles	95,987	0	95,987
Total Net Capital Assets	\$ 14,032,249	\$ 7,876	\$ 14,040,125

Long-Term Debt. At the end of the 2004 fiscal year, Carter County had total long-term debt outstanding of \$13,385,000. The amount of this debt due within the next year is \$350,000 and \$13,035,000 is due in subsequent years. This debt is for the Detention Center and Justice Center.

Short-Term Debt. The county has no short-term debt at the end of the fiscal year.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects that have been completed or are nearing completion.
- Program cuts at the State level may have a negative impact on funding for county programs. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.

Requests for Information.

This financial report is designed to provide a general overview of Carter County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Carter County Treasurer, 300 West Main Street, Room 220, Grayson, Kentucky, 41143.

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CARTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

CARTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,505,415	\$ 17,083	\$ 2,522,498
Total Current Assets	<u>2,505,415</u>	<u>17,083</u>	<u>2,522,498</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	6,000,000		6,000,000
Land and Land Improvements	942,900		942,900
Buildings	5,937,150		5,937,150
Equipment	421,525	7,876	429,401
Vehicles	95,987		95,987
Infrastructure Assets - Net of Depreciation	<u>634,687</u>		<u>634,687</u>
Total Noncurrent Assets	<u>14,032,249</u>	<u>7,876</u>	<u>14,040,125</u>
Total Assets	<u>16,537,664</u>	<u>24,959</u>	<u>16,562,623</u>
LIABILITIES			
Current Liabilities:			
Improvement Bonds	85,000		85,000
Revenue Bonds	265,000		265,000
Payroll Revolving Accounts	9,646		9,646
Total Current Liabilities	<u>359,646</u>		<u>359,646</u>
Noncurrent Liabilities:			
Improvement Bonds	5,880,000		5,880,000
Revenue Bonds	6,945,000		6,945,000
Financing Obligation	210,000		210,000
Total Noncurrent Liabilities	<u>13,035,000</u>		<u>13,035,000</u>
Total Liabilities	<u>13,394,646</u>		<u>13,394,646</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 637,603	\$ 7,876	\$ 645,479
Restricted For:			
Capital Projects	830,001		830,001
Unrestricted	<u>1,675,414</u>	<u>17,083</u>	<u>1,692,497</u>
Total Net Assets	<u>\$ 3,143,018</u>	<u>\$ 24,959</u>	<u>\$ 3,167,977</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,454,287	\$ 154,998	\$ 1,081,592	\$ 968,740
Protection to Persons and Property	1,711,472	1,077,701	248,217	
General Health and Sanitation	935,649			
Recreation and Culture	18,813			
Roads	1,693,052		2,322,007	
Interest on Long Term Debt	585,944			
Capital Projects	111,782			
Total Governmental Activities	<u>6,510,999</u>	<u>1,232,699</u>	<u>3,651,816</u>	<u>968,740</u>
Business-type Activities:				
Jail Canteen Fund	22,540	32,337		
Total Business-type Activities	<u>22,540</u>	<u>32,337</u>		
Total Primary Government	<u>\$ 6,533,539</u>	<u>\$ 1,265,036</u>	<u>\$ 3,651,816</u>	<u>\$ 968,740</u>

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

In Lieu Tax Payments

Excess Fees

Intergovernmental

Interest

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ 751,043	\$	\$ 751,043
(385,554)		(385,554)
(935,649)		(935,649)
(18,813)		(18,813)
628,955		628,955
(585,944)		(585,944)
(111,782)		(111,782)
(657,744)		(657,744)
	9,797	9,797
	9,797	9,797
\$ (657,744)	9,797	(647,947)
334,525		334,525
25,322		25,322
97,417		97,417
1,036,902		1,036,902
13,413		13,413
83,196		83,196
160		160
54,047		54,047
181,883		181,883
1,826,865		1,826,865
1,169,121	9,797	1,178,918
1,973,897	15,162	1,989,059
\$ 3,143,018	\$ 24,959	\$ 3,167,977

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Community Development Block Grant Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,077,749	\$ 79,375	\$ 158,716	\$ 128,703	\$
Total Assets	<u>\$ 1,077,749</u>	<u>\$ 79,375</u>	<u>\$ 158,716</u>	<u>\$ 128,703</u>	<u>\$ 0</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Payroll Revolving Accounts	\$ 9,646	\$	\$	\$	\$
Total Liabilities	<u>9,646</u>				
FUND BALANCES					
Reserved for:					
Encumbrances	105,475	79,375	21,338	70,364	
Unreserved:					
General Fund	962,628				
Special Revenue Funds			137,378	58,339	
Capital Projects Fund					
Total Fund Balances	<u>1,068,103</u>	<u>79,375</u>	<u>158,716</u>	<u>128,703</u>	
Total Liabilities and Fund Balances	<u>\$ 1,077,749</u>	<u>\$ 79,375</u>	<u>\$ 158,716</u>	<u>\$ 128,703</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Enhanced 911 Corporation	Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 143,108	\$ 830,001	\$ 87,763	\$ 2,505,415
\$ 143,108	\$ 830,001	\$ 87,763	\$ 2,505,415
\$	\$	\$	\$ 9,646
			9,646
3,490			280,042
			962,628
139,618		87,763	423,098
	830,001		830,001
143,108	830,001	87,763	2,495,769
\$ 143,108	\$ 830,001	\$ 87,763	\$ 2,505,415

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,495,769
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	16,188,620
Depreciation	(2,156,371)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(210,000)
Bonded Debt	(13,175,000)
Net Assets Of Governmental Activities	\$ 3,143,018

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,281,031	\$	\$	\$
In Lieu Tax Payments	13,413			
Excess Fees	83,195			
Licenses and Permits	30,825			
Intergovernmental	368,330	2,325,267	1,043,485	397,154
Charges for Services	105,527			
Miscellaneous	148,315		173,711	6,269
Interest	8,900	2,498	1,546	929
Total Revenues	<u>2,039,536</u>	<u>2,327,765</u>	<u>1,218,742</u>	<u>404,352</u>
EXPENDITURES				
General Government	733,482			11,875
Protection to Persons and Property	104,420		938,561	286,583
General Health and Sanitation	46,640			95,503
Recreation and Culture				18,813
Roads		2,310,827		59,922
Debt Service				
Capital Projects		111,782		
Administration	234,233	94,867	171,709	57,758
Total Expenditures	<u>1,118,775</u>	<u>2,517,476</u>	<u>1,110,270</u>	<u>530,454</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>920,761</u>	<u>(189,711)</u>	<u>108,472</u>	<u>(126,102)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds				
Transfers From Other Funds	34,287	250,000		202,500
Transfers To Other Funds	(778,317)	(34,287)	(44,000)	
Total Other Financing Sources (Uses)	<u>(744,030)</u>	<u>215,713</u>	<u>(44,000)</u>	<u>202,500</u>
Net Change in Fund Balances	176,731	26,002	64,472	76,398
Fund Balances - Beginning	891,372	53,373	94,244	52,305
Fund Balances - Ending	<u>\$ 1,068,103</u>	<u>\$ 79,375</u>	<u>\$ 158,716</u>	<u>\$ 128,703</u>

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Community Development Block Grant Fund	Enhanced 911 Fund	Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 209,190	\$	\$ 3,945	\$ 1,494,166
				13,413
				83,195
				30,825
793,502	48,111	591,876		5,567,725
				105,527
	357	2,569		331,221
	877	38,570	728	54,048
<u>793,502</u>	<u>258,535</u>	<u>633,015</u>	<u>4,673</u>	<u>7,680,120</u>
				745,357
	173,364		6,912	1,509,840
793,506				935,649
				18,813
				2,370,749
		745,783	369,817	1,115,600
		3,870,806		3,982,588
	25,369	95,918		679,854
<u>793,506</u>	<u>198,733</u>	<u>4,712,507</u>	<u>376,729</u>	<u>11,358,450</u>
<u>(4)</u>	<u>59,802</u>	<u>(4,079,492)</u>	<u>(372,056)</u>	<u>(3,678,330)</u>
		380,000		380,000
			369,817	856,604
				(856,604)
		<u>380,000</u>	<u>369,817</u>	<u>380,000</u>
(4)	59,802	(3,699,492)	(2,239)	(3,298,330)
4	83,306	4,529,493	90,002	5,794,099
<u>\$ 0</u>	<u>\$ 143,108</u>	<u>\$ 830,001</u>	<u>\$ 87,763</u>	<u>\$ 2,495,769</u>

The accompanying notes are an integral part of the financial statements.

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**CARTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

**CARTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ (3,298,330)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	4,661,286
Depreciation Expense	(343,491)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.

Financing Obligation	(380,000)
----------------------	-----------

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations	194,656
Bond Payments	335,000

Change in Net Assets of Governmental Activities	\$ 1,169,121
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CARTER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

CARTER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 17,083
Total Current Assets	<u>17,083</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	12,181
Less Accumulated Depreciation	<u>(4,305)</u>
Total Noncurrent Assets	<u>7,876</u>
Total Assets	<u>24,959</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	7,876
Unrestricted	<u>17,083</u>
Total Net Assets	<u>\$ 24,959</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

**CARTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

	Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 32,337
Total Operating Revenues	<u>32,337</u>
Operating Expenses	
Educational and Recreational	4,797
Equipment	10,770
Personnel Costs	3,363
Miscellaneous	<u>3,883</u>
Total Operating Expenses	<u>22,813</u>
Operating Income	<u>9,524</u>
Change In Net Assets	9,524
Total Net Assets - Beginning (Restated)	<u>7,559</u>
Total Net Assets - Ending	<u><u>\$ 17,083</u></u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

CARTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Sales Commission	\$ 32,337
Educational and Recreational	(4,797)
Equipment	(10,770)
Personnel Costs	(3,363)
Miscellaneous	(3,883)
Net Cash Provided By	
Operating Activities	<u>9,524</u>
Net Increase in Cash and Cash	
Equivalents	9,524
Cash and Cash Equivalents - July 1 (Restated)	<u>7,559</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 17,083</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 9,524</u>
Total Cash Provided By Operating	
Activities	<u><u>\$ 9,524</u></u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

CARTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Agency Fund</u>
	Jail Inmate Fund
	<u>Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 8,798
Total Assets	<u>\$ 8,798</u>
Liabilities	
Amounts Held In Custody For Others	\$ 8,798
Total Liabilities	<u>\$ 8,798</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county prepares its financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Carter County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Carter County Justice Center Corporation:

The Carter County Justice Center Corporation (the Corporation) is a legally separate entity established to provide long-term debt service to the Fiscal Court for the construction of a justice center facility. A majority of the Corporation's governing body is appointed by the Carter County Judge/Executive. Further, the Carter County Fiscal Court can significantly influence the Corporation's operations. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Carter County Elected Officials Not Part Of Carter County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Carter County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Carter County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds received from state grants. These funds may be used for public safety, environmental protection, and economic development.

Community Development Block Grant Fund - This fund accounts for various community projects funded through state and federal grants.

Enhanced 911 Fund - This fund accounts for the County's emergency operations and is supported primarily from telephone taxes.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Justice Center Corporation Fund - This fund accounts for the activities of the Carter County Justice Center Corporation, a blended component unit of the county. The Justice Center Corporation Fund issued the debt to build the justice center. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Governor's Surplus Spending Fund, Forestry Fund, Bond Defeasance Fund, and the Jail Bond Debt Service Fund.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30, following delinquency date.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund, Enhanced 911 Fund, Governor's Surplus Spending Fund, Forestry Fund, and Bond Defeasance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Justice Center Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Jail Bond Debt Service Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB statements or interpretations.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for inmate monies held by the jailer for custodial purposes only.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements only. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Infrastructure assets placed in service on or after July 1, 2003, are reported as permitted by provisions of GASB 34.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	25-40
Buildings	\$ 25,000	30-40
Building Improvements	\$ 25,000	15-25
Machinery and Equipment	\$ 2,500	5-10
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	15-25

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Justice Center Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. The Governor's Office for Local Development does not require this fund to be budgeted.

J. Related Organizations and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Ambulance Service is considered a related organization of the Carter County Fiscal Court.

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is an organization jointly governed by the Kentucky Counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government and component units' deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 942,900	\$	\$	\$ 942,900
Construction In Progress	2,129,194	3,870,806		6,000,000
Total Capital Assets Not Being Depreciated	3,072,094	3,870,806		6,942,900
Capital Assets, Being Depreciated:				
Buildings	7,054,070			7,054,070
Equipment	815,406	81,248		896,654
Vehicles	585,764	29,210		614,974
Infrastructure		680,022		680,022
Total Capital Assets Being Depreciated	8,455,240	790,480		9,245,720
Less Accumulated Depreciation For:				
Buildings	(953,619)	(163,301)		(1,116,920)
Equipment	(378,637)	(96,492)		(475,129)
Vehicles	(480,624)	(38,363)		(518,987)
Infrastructure		(45,335)		(45,335)
Total Accumulated Depreciation	(1,812,880)	(343,491)		(2,156,371)
Total Capital Assets, Being Depreciated, Net	6,642,360	446,989		7,089,349
Governmental Activities Capital Assets, Net	<u>\$ 9,714,454</u>	<u>\$ 4,317,795</u>	<u>\$ 0</u>	<u>\$ 14,032,249</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 9,492	\$ 2,689	\$	\$ 12,181
Total Capital Assets Being Depreciated	9,492	2,689		12,181
Less Accumulated Depreciation For:				
Vehicles and Equipment	(1,889)	(2,416)		(4,305)
Total Accumulated Depreciation	(1,889)	(2,416)		(4,305)
Total Capital Assets, Being Depreciated, Net	7,603	273		7,876
Business-Type Activities Capital Assets, Net	<u>\$ 7,603</u>	<u>\$ 273</u>	<u>\$ 0</u>	<u>\$ 7,876</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 32,524
Protection to Persons and Property	233,842
Roads, Including Depreciation of General Infrastructure Assets	<u>77,125</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 343,491</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 2,416</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 2,416</u>

Note 4. Long-term Debt

A. Improvement Bonds, Series 2001

On May 1, 2001, the Carter County Fiscal Court issued \$6,105,000 of General Obligation Improvement bonds for financing the construction of the Carter County Detention Facility. The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commenced on November 1, 2001, and the principal payments commenced on May 1, 2003. As of June 30, 2004, the principal amount outstanding was \$5,965,000. Bond payments for the remaining years were:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 85,000	\$ 292,043
2006	105,000	288,812
2007	110,000	284,718
2008	115,000	280,318
2009	125,000	275,602
2010-2014	705,000	1,292,728
2015-2019	895,000	1,112,625
2020-2024	1,165,000	867,112
2025-2029	1,520,000	534,281
2030-2032	<u>1,140,000</u>	<u>118,900</u>
Totals	<u>\$ 5,965,000</u>	<u>\$ 5,347,139</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2002

On August 1, 2001, the Carter County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center and obtaining office rental space for the AOC at the Justice Center. Subsequently, on July 1, 2002, the Carter County Justice Center Corporation issued First Mortgage Revenue Bonds in order to construct the Carter County Justice Center.

The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage and maintain the Justice Center. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the agreement, the AOC has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 1, 2022, but the lease does not legally obligate the AOC to do so.

The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commence on March 1, 2003, and the principal payments commence on March 1, 2004. As of June 30, 2004, the principal amount outstanding was \$7,210,000. Bond payments for the remaining years were:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 265,000	\$ 304,355
2006	270,000	297,730
2007	275,000	290,170
2008	285,000	281,645
2009	295,000	272,098
2010-2014	1,680,000	1,181,590
2015-2019	2,080,000	793,125
2020-2023	2,060,000	256,046
Totals	<u>\$ 7,210,000</u>	<u>\$ 3,676,759</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

C. Kentucky Area Development District Financing Program

On October 9, 2003, the Carter County Justice Center Corporation entered into a 20-year financing obligation with the Kentucky Area Development Districts Financing Trust in the amount of \$380,000. The proceeds of the financing were used to fund a portion of the construction costs associated with the new Justice Center. A principal payment of \$170,000 was made on May 28, 2004 with the remaining principal due annually commencing on December 1, 2005. The agreement requires semiannual interest payments at an average rate of 3.86 percent. The Administrative Office of the Courts is expected to pay the full amount of the principal and interest payments. The principal outstanding as of June 30, 2004 was \$210,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$	\$ 7,305
2006	10,000	7,230
2007	15,000	7,020
2008	15,000	6,728
2009	15,000	6,382
2010-2014	60,000	25,938
2015-2019	55,000	15,436
2020-2023	40,000	3,840
Totals	<u>\$ 210,000</u>	<u>\$ 79,879</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation					
Improvement Bonds	\$ 6,040,000	\$	\$ 75,000	\$ 5,965,000	\$ 85,000
Revenue Bonds	7,470,000		260,000	7,210,000	265,000
Financing Obligations	24,656	380,000	194,656	210,000	
Governmental Activities					
Long-term Liabilities	<u>\$ 13,534,656</u>	<u>\$ 380,000</u>	<u>\$ 529,656</u>	<u>\$13,385,000</u>	<u>\$ 350,000</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2004, Carter County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental and business type activities is a decrease of \$3,820,202 and an increase of \$7,603 respectively, due to capital assets previously not reported and the effect of long-term debt. The fund balance of the Jail Canteen Fund has also been restated by \$5,850 for a miscalculation in the prior year.

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CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,068,214	\$ 1,068,214	\$ 1,281,031	\$ 212,817
In Lieu Tax Payments	1,000	1,000	13,413	12,413
Excess Fees	75,000	75,000	83,195	8,195
Licenses and Permits	18,000	18,000	30,825	12,825
Intergovernmental Revenue	369,786	496,257	368,330	(127,927)
Charges for Services	90,000	90,000	105,527	15,527
Miscellaneous	60,000	88,292	148,315	60,023
Interest	6,000	6,000	8,900	2,900
Total Revenues	<u>1,688,000</u>	<u>1,842,763</u>	<u>2,039,536</u>	<u>196,773</u>
EXPENDITURES				
General Government	867,267	929,543	733,482	196,061
Protection to Persons and Property	3,378	104,849	104,420	429
General Health and Sanitation	59,820	61,770	46,640	15,130
Social Services		50,000		50,000
Administration	320,321	259,387	234,233	25,154
Total Expenditures	<u>1,250,786</u>	<u>1,405,549</u>	<u>1,118,775</u>	<u>286,774</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>437,214</u>	<u>437,214</u>	<u>920,761</u>	<u>483,547</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			34,287	34,287
Transfers To Other Funds	(1,440,460)	(1,440,460)	(778,317)	662,143
Total Other Financing Sources (Uses)	<u>(1,440,460)</u>	<u>(1,440,460)</u>	<u>(744,030)</u>	<u>696,430</u>
Net Changes in Fund Balance	(1,003,246)	(1,003,246)	176,731	1,179,977
Fund Balance - Beginning	<u>1,003,246</u>	<u>1,003,246</u>	<u>891,372</u>	<u>(111,874)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,068,103</u>	<u>\$ 1,068,103</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,366,653	\$ 2,366,653	\$ 2,325,267	\$ (41,386)
Interest	500	500	2,498	1,998
Total Revenues	<u>2,367,153</u>	<u>2,367,153</u>	<u>2,327,765</u>	<u>(39,388)</u>
EXPENDITURES				
Roads	2,757,714	2,687,314	2,310,827	376,487
Debt Service	25,185	119,505	111,782	7,723
Administration	139,103	115,183	94,867	20,316
Total Expenditures	<u>2,922,002</u>	<u>2,922,002</u>	<u>2,517,476</u>	<u>404,526</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(554,849)</u>	<u>(554,849)</u>	<u>(189,711)</u>	<u>365,138</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	541,310	541,310	250,000	(291,310)
Transfers To Other Funds			(34,287)	(34,287)
Total Other Financing Sources (Uses)	<u>541,310</u>	<u>541,310</u>	<u>215,713</u>	<u>(325,597)</u>
Net Changes in Fund Balance	(13,539)	(13,539)	26,002	39,541
Fund Balance - Beginning	<u>13,539</u>	<u>13,539</u>	<u>53,373</u>	<u>39,834</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 79,375</u>	<u>\$ 79,375</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 803,946	\$ 803,946	\$ 1,043,485	\$ 239,539
Charges for Services	1,400	1,400		(1,400)
Miscellaneous	71,400	71,400	173,711	102,311
Interest	100	100	1,546	1,446
Total Revenues	876,846	876,846	1,218,742	341,896
EXPENDITURES				
Protection to Persons and Property	1,045,953	1,127,328	938,561	188,767
Administration	247,084	209,709	171,709	38,000
Total Expenditures	1,293,037	1,337,037	1,110,270	226,767
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(416,191)	(460,191)	108,472	568,663
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	366,191	366,191		(366,191)
Transfers To Other Funds			(44,000)	(44,000)
Total Other Financing Sources (Uses)	366,191	366,191	(44,000)	(410,191)
Net Changes in Fund Balance	(50,000)	(94,000)	64,472	158,472
Fund Balance - Beginning	50,000	94,000	94,244	244
Fund Balance - Ending	\$ 0	\$ 0	\$ 158,716	\$ 158,716

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 235,000	\$ 370,516	\$ 397,154	\$ 26,638
Miscellaneous	6,200	6,200	6,269	69
Interest	1,000	1,000	929	(71)
Total Revenues	242,200	377,716	404,352	26,636
EXPENDITURES				
General Government	12,934	13,059	11,875	1,184
Protection to Persons and Property	227,064	292,839	286,583	6,256
General Health and Sanitation	92,650	107,750	95,503	12,247
Social Services	500	500		500
Recreation and Culture		75,516	18,813	56,703
Roads	60,000	60,000	59,922	78
Administration	80,768	59,768	57,758	2,010
Total Expenditures	473,916	609,432	530,454	78,978
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(231,716)	(231,716)	(126,102)	105,614
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	163,141	163,141	202,500	39,359
Total Other Financing Sources (Uses)	163,141	163,141	202,500	39,359
Net Changes in Fund Balances	(68,575)	(68,575)	76,398	144,973
Fund Balances - Beginning	68,575	68,575	52,305	(16,270)
Fund Balances - Ending	\$ 0	\$ 0	\$ 128,703	\$ 128,703

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 903,500	\$ 903,500	\$ 793,502	\$ (109,998)
Total Revenues	903,500	903,500	793,502	(109,998)
EXPENDITURES				
General Health and Sanitation	900,000	900,000	793,506	106,494
Capital Projects	3,500	3,500		3,500
Total Expenditures	903,500	903,500	793,506	109,994
Excess (Deficiency) of Revenues Over Expenditures			(4)	(4)
Net Changes in Fund Balances			(4)	(4)
Fund Balances - Beginning			4	4
Fund Balances - Ending	\$ 0	\$ 0	\$ 0	\$ 0

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

ENHANCED 911				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 194,816	\$ 194,816	\$ 209,190	\$ 14,374
Intergovernmental Revenue	40,000	40,000	48,111	8,111
Miscellaneous	250	250	357	107
Interest	1,800	1,800	877	(923)
Total Revenues	<u>236,866</u>	<u>236,866</u>	<u>258,535</u>	<u>21,669</u>
EXPENDITURES				
Protection to Persons and Property	300,253	299,853	173,364	126,489
Administration	25,524	25,924	25,369	555
Total Expenditures	<u>325,777</u>	<u>325,777</u>	<u>198,733</u>	<u>127,044</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(88,911)</u>	<u>(88,911)</u>	<u>59,802</u>	<u>148,713</u>
Net Changes in Fund Balances	(88,911)	(88,911)	59,802	148,713
Fund Balances - Beginning	<u>88,911</u>	<u>88,911</u>	<u>83,306</u>	<u>(5,605)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 143,108</u>	<u>\$ 143,108</u>

CARTER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Justice Center Corporation Fund.

The State Local Finance Officer does not require the Justice Center Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**CARTER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

CARTER COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Governor's Surplus Spending Fund	Forestry Fund	Bond Defeasance Fund	Jail Bond Debt Service Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 11,241	\$ 11,745	\$ 64,777	\$	\$ 87,763
Total Assets	<u>\$ 11,241</u>	<u>\$ 11,745</u>	<u>\$ 64,777</u>	<u>\$ 0</u>	<u>\$ 87,763</u>
FUND BALANCES					
Unreserved:					
Special Revenue Funds	\$ 11,241	\$ 11,745	\$ 64,777	\$	\$ 87,763
Total Fund Balances	<u>\$ 11,241</u>	<u>\$ 11,745</u>	<u>\$ 64,777</u>	<u>\$ 0</u>	<u>\$ 87,763</u>

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CARTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

CARTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Governor's Surplus Spending Fund	Forestry Fund	Bond Defeasance Fund	Jail Bond Debt Service Fund
REVENUES				
Taxes	\$	\$ 3,945	\$	\$
Interest	98		630	
Total Revenues	98	3,945	630	
EXPENDITURES				
Protection to Persons and Property		6,912		
Debt Service				369,817
Total Expenditures		6,912		369,817
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	98	(2,967)	630	(369,817)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds				369,817
Total Other Financing Sources (Uses)				369,817
Net Change in Fund Balances	98	(2,967)	630	
Fund Balances - Beginning	11,143	14,712	64,147	
Fund Balances - Ending	\$ 11,241	\$ 11,745	\$ 64,777	\$ 0

CARTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Total Non-Major Governmental Funds	
\$	3,945
	728
	<u>4,673</u>
	6,912
	<u>369,817</u>
	<u>376,729</u>
	<u>(372,056)</u>
	<u>369,817</u>
	<u>369,817</u>
	(2,239)
	<u>90,002</u>
\$	<u><u>87,763</u></u>

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CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2004

**CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky.
2. One reportable condition relating to the internal control of the audit of the financial statements is reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Carter County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Carter County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Carter County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grants, CFDA #14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Carter County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

Reference Number 2004-01

Lacks Adequate Segregation Of Duties

The County has a lack of adequate segregation of duties. Due to budget restrictions, the county has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- An independent person should list all receipts and agree them back to the treasurer's receipt ledger.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. This can be documented by the person initialing the envelope or bank statement.
- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy. This can be documented by the person initialing the bank reconciliation.
- An independent person should compare fiscal court order approvals to invoices and cancelled checks.

County Judge/Executive Charles Wallace's Response:

We are restricted because of the size of our staff, but we will try to implement these procedures.

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS

Reference Number 2004-02

The Fiscal Court Should Adopt A Written Investment Policy

The fiscal court has not adopted a written investment policy to govern the investment of public funds. KRS 66.480(3) requires fiscal courts to have adopted, by January 1, 1995, a written investment policy. It is important to adopt a written investment policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include. We recommend the fiscal court adopt a written investment policy per KRS 66.480(3). If needed, the fiscal court should request the County Attorney assist in developing a written investment policy.

County Judge/Executive Charles Wallace's Response:

We will discuss this with the fiscal court.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- Lacks Adequate Segregation Of Duties – Repeated in current audit.
- The Fiscal Court Should Adopt A Written Investment Policy – Repeated in current audit.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

CARTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CARTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Governor's Office for Local Development Community Development Block Grants- Rattlesnake Ridge Water Expansion Project, Phase VI (CFDA #14.228)	B-99-DC-21-0001(064)	\$ 4,000
Rattlesnake Ridge Water Expansion Project, Phase VII (CFDA #14.228)	B-01-044	<u>789,506</u>
Total U.S. Department of Housing and Urban Development		<u>793,506</u>
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs: WMD Grants- Equipment (CFDA #97.004)	M-03138124	\$ 26,673
Equipment, Part II (CFDA #97.004)	M-03254738	63,252
Disaster and Emergency Assistance Grants- February 2003 Severe Weather (CFDA #97.036)	FEMA-1454-DR-KY	163,897
May 2003 Severe Weather (CFDA #97.036)	FEMA-1471-DR-KY	74,493
Severe Weather (CFDA #97.036)	FEMA-1475-DR-KY	<u>238,573</u>
Total U.S. Department of Homeland Security		<u>566,888</u>
Total Cash Expenditures of Federal Awards		<u>\$ 1,360,394</u>

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CARTER COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carter County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 22, 2005. Carter County prepares its financial statements in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carter County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Carter County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- Reference Number 2004-01: Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Carter County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- Reference Number 2004-02: The Fiscal Court Should Adopt A Written Investment Policy

This report is intended solely for the information and use of Carter County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 22, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Carter County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Carter County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Carter County's management. Our responsibility is to express an opinion on Carter County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carter County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Carter County's compliance with those requirements.

In our opinion, Carter County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Carter County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Carter County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 22, 2005

**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**


CARTER COUNTY FISCAL COURT

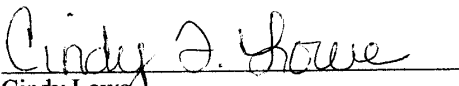
**For The Fiscal Year Ended
June 30, 2004**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CARTER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Carter County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Charles Wallace
Carter County Judge/Executive


Cindy Lowe
Carter County Treasurer

